NEED FOR RESPONSIBLE IFI POLICIES IN AN INCREASINGLY UNSTABLE GLOBAL ECONOMY

Statement by Global Unions to the 2018 Spring Meetings of the IMF and World Bank Washington, 20-22 April 2018

Introduction

1. The most recent forecasts of the international financial institutions project a second year of stronger economic growth following more than half a decade of anaemic post-Great Recession recovery. Global Unions' statement[1] observes that the growth is unevenly shared and has had little positive impact on labour markets in many of the world's regions, as demonstrated by declining labour income shares. The statement expresses the labour movement's concern that monetary tightening, inequality-inducing fiscal reforms, unilateral trade restrictions and attempts to roll back financial regulation could destabilize the world economy and harm the interests of working people. Trade unions are also troubled by the increased threats posed by right-wing populism, authoritarianism, climate catastrophe and inequality, which all fan the flames of conflict. Global Unions urge the international financial institutions to focus on creating quality jobs, ensuring living wages, expanding universal social protection, achieving a just transition to a low-carbon future, reducing inequality and supporting social dialogue.

2. Global Unions' statement puts forward recommendations in response to various policy initiatives of the IFIs, including the IMF's review of its involvement in social protection reforms; IMF and World Bank actions concerning income and wealth inequality; and the Bank's announced support for just transition strategies towards low-carbon economies. The statement calls on the World Bank to adopt a more principled approach concerning private sector involvement in the institution's development strategies that fully recognizes costs and risks. It also contains recommendations for ensuring the effective implementation of the Bank's new labour standards lending requirement, scheduled to begin in late 2018.

[1] The Global Unions group is made up of the International Trade Union Confederation (ITUC), which has 207 million members in 163 countries; the Global Union Federations (GUFs), which represent their respective sectors at the international trade union level (BWI, EI, IAEA, IFJ, IndustriALL, ITF, IUF, PSI and UNI); and the Trade Union Advisory Committee (TUAC) to the OECD.

Stronger economic growth threatened by disruptive policy actions

3. The stronger global growth registered in 2017 compared to the previous six years is expected by the IFIs to continue in 2018, according to updated forecasts published by the IMF and World Bank. The International Labour Organization, in its 2018 *World Employment and Social Outlook*, predicts that the global unemployment rate will decline slightly as a result, but most of the progress will take place in advanced economies. Employment growth is expected to be outpaced by labour force growth in developing and emerging economies. Precarious jobs combined with stagnant or declining real wages in many regions mean that some 290 million people will remain in extreme working poverty, according to ILO calculations. In developing countries, this situation applies to 40 per cent of working people.

4. The predicted rate of growth this year, higher than any since the immediate post-Great Recession period, will not be shared throughout the world. Most countries heavily dependent on commodity exports, for example, are expected to show economic growth in 2018 at less than half the global average of 3.9 per cent forecast by the IMF. G20 countries such as Brazil, Russia and South Africa are among those experiencing weak GDP growth, which will be reflected in continued high unemployment and under-employment. Significantly lower growth than the world average is also forecast for some large advanced economies, notably Great Britain and Japan.

5. The global trade union movement is highly concerned that current economic policy decisions may be sowing the seeds of the next global recession and could strengthen its impact. For example, the tax reform carried out in the world's second-largest economy, the United States, consisting of a reduction of taxes for businesses and high-income individuals, will further increase income inequality and compromise economic growth and stability in the medium term even if it has a slight short-term stimulus effect. Of even more immediate impact will be the accompanying monetary tightening, already begun in the US, which will increase borrowing and debt service costs throughout the world. The inevitable result will be a slow-down in investment. The increased costs pose a particular danger for developing countries whose debt burdens are close to unsustainable and could experience severe financial and economic crisis. According to an IMF policy paper released in March, 40 per cent of low-income countries face high risks or are already in a situation of debt distress, up from 20 per cent four years ago.

6. Equally troubling for working people are the threat of an avalanche of unilateral and disruptive trade restrictions. Trade unions have argued, instead, for a renegotiation of the international trade and investment agreements that ignore the adjustment costs of liberalization and give investors' rights priority over the interests of communities and workers. Steps taken in some countries to roll back regulatory frameworks of the financial sector that were put in place following the 2008 financial crisis are also of strong concern. These actions will not only endanger jobs and contribute to a new global recession, but they will render governments incapable of responding quickly and effectively to the next crisis. The fair and effective integration of migrants and refugees into labour markets is also a key concern, as these populations are often vulnerable to unemployment, low quality jobs and social exclusion. Global Unions' recommendations for responding to these challenges are presented in the last section of this statement.

IFI support needed to attain universal social protection

7. The decision by the IMF to develop a new "institutional view" on social protection after completing a process of study and consultation is welcome. The launch of the policy review follows last year's report from the IMF's Independent Evaluation Office (IEO, *The IMF and Social Protection*, July 2017), which questioned whether the Fund's involvement in social protection reforms was compatible with its support for the Agenda 2030 Sustainable Development Goals. The report noted the lack of expertise of Fund staff concerning social protection issues compared to other organizations more specialized in the topic. The IEO report points out that the IMF's approach of favouring targeted rather than universal social protection often places it at odds with other international agencies and the SDGs. Trade unions and other organizations have frequently criticized the IMF's involvement in social programme reforms because the focus has been to control short-term fiscal costs, not to improve adequacy or coverage.

8. The IMF's promotion of narrow targeting of social benefits using highly questionable mechanisms that exclude substantial numbers of the most vulnerable has been one of the major issues of concern. The measures supported by the Fund have included targeting of child benefits that were previously universal; elimination of universal food subsidies; and restrictions in access to pension and unemployment benefits that have resulted in reduced coverage. Social assistance programmes for those in need should be part of comprehensive social protection systems in line with ILO Recommendation 202 on Social Protection Floors. However, the IMF's approach of supporting narrowly targeted safety nets to the exclusion of comprehensive systems is highly problematic. Given that the review process at the Fund is expected to last almost two years – it is planned to issue a staff guidance note on social protection at the end of 2019 – Global Unions recommend that the IMF should refrain from issuing loan conditions or reform recommendations in the area of social protection at least until the process has been completed.

9. In 2016 the ILO and the World Bank launched the Global Partnership for Universal Social Protection, a joint effort of international organizations, development partners and civil society to increase the number of countries with universal protection. The Bank's participation in this initiative followed from the its endorsement of the SDGs, specifically Target 1.3 on social protection for all. In light of its involvement in several problematic proxy means-testing schemes in recent years, the Bank should ensure that henceforth its programmes deliver on the commitment to universal social protection by helping establish comprehensive systems in line with ILO Recommendation 202. The IMF should also support this approach, following up on earlier country-level research work it was involved in for identifying fiscal space for social protection floors.

Programme conditions and policy recommendations to reduce inequality

10. In the past year, national trade union centres have been consulted on several IMF country pilot initiatives on the topics of income and wealth inequality and gender inequality, carried out as part of Article IV consultations. Global Unions support the expansion of this dialogue, and the intentions of the IMF to mainstream and operationalize its work on inequality. The process of operationalizing inequality analysis will require a willingness to honestly assess the distributional and gendered impacts of reforms

recommended by the Fund. Similar analyses should be taken systematically in IMF loan programmes and be used to guide conditionality.

11. This approach is particularly needed on wage policy and public wage bills, where the IMF frequently promotes limits on wage growth and a shrinking of the public sector. Such actions can have major impacts on inequality. Attention must also be paid to the impact of changes to collective bargaining systems, such as legislative changes that diminish access to collective bargaining and the promotion of decentralized bargaining. The latter almost inevitably leads to lower collective bargaining coverage and should be immediately reconsidered. On economic inequality, the IMF should focus on the crucial issues, namely the declining labour share of national income and the widening gap between the ultra-rich and the majority of people. On gender inequality, a similar focus should be on women's economic security and the impact of public spending and tax policies.

12. The World Bank can support countries in reducing inequality by giving effective advice on the creation of decent work through labour market policy and a transition from the informal to the formal economy. The Bank's publication, *Balancing Regulations to Promote Jobs*, is a guide for labour market policy that can help address problems in the world of work that contribute to inequality, including stagnant wages and non-standard employment. The report places strong emphasis on the importance of minimum wages and measures to prevent the abuse of precarious work contracts as well as the importance of social dialogue and tripartism in the planning of labour law reforms. It also includes multiple references to ILO standards and instruments. There is room for further elaboration of the Bank's analysis on transitions to formality, which can move people from poverty and into secure and productive employment that reduces inequality. Both the IMF and World Bank must offer strong support for measures that strengthen labour market institutions, promote collective bargaining and raise real wages so as to recover lost labour share of national income.

The future of work and finance

13. A new social contract is necessary to realize the SDGs and maintain social cohesion in a time of major shifts including new technology, automatization and the digital revolution. Acting now to promote secure employment, shared prosperity, social protection and workers' rights will build resilience and ensure a smooth transition to the future of work. The World Bank could point the way forward with the upcoming *World Development Report 2019: The Changing Nature of Work*. A report crafted with the input of the social partners could be a resource on policies for a decent future of work. However, the WDR team has thus far declined to meet with trade unions and has only indicated possible consultation after finalization of a "yellow cover draft". The current draft of the report includes some positive recommendations in favour of increased public investment in people, digital taxation and carbon taxation. However, its call for "A New Social Contract" involving further labour market flexibilization, more insecure employment through digital platforms and the displacement of workers' voice from social dialogue structures will lead to additional dislocation, instability and inequality.

14. While progress was made in several countries toward re-regulating the financial sector after the disastrous 2008 global financial crisis, it was far from complete. Vast swaths of the sector, such as shadow banking systems, remain unregulated or under-regulated.

And despite findings by the IMF and other institutions that the financial sector continues to be under-taxed compared to the real economy, tax levies on finance have even been reduced in some countries. The emergence of unregulated crypto-currencies – vehicles that can be used for money laundering and tax avoidance while creating new sources of instability and job destruction – has added to the volatile mix. Information published in March showing that Wall Street bonuses in 2017 were at their highest level in eleven years indicate that financial firms have returned to their reckless pre-crisis culture. Many of these bonuses were paid as fees for convincing heavily-indebted companies to take on even more debt. These dangerous financial industry practices, combined with recent actions in some countries to reverse regulations and supervision put in place after the 2008 crisis, are creating the conditions for another one. The IFIs must use their influence to put a halt to the roll-back of financial regulation and instead complete the steps already taken to prevent a new crisis.

A responsible and realistic approach to private sector involvement in development

15. The World Bank's vision of private-led development involves significant risks and a divergence from its core functions and mission. Global Unions urge a cautious approach and a commitment to inclusive growth for the benefit of the poor and working people.

16. The cascade approach, now branded "Maximizing Finance for Development", would position the World Bank Group as a facilitator for private capital and lender of last resort. Through the Global Infrastructure Forum, the World Bank and other multilateral development banks are pressing for an ambitious expansion of public-private partnerships and infrastructure as an asset class for institutional investors. As a result, there is a growing focus on guarantees for private investment and the design of projects that are profitable, and therefore attractive to investors. The International Development Association, the World Bank's concessional arm, will issue bonds backed by government contributions for the first time in its history. The IDA18 replenishment round also created a $2.5 billion Private Sector Window to channel money through the Bank's private finance arms, IFC and MIGA, to bolster their operations through de-risking, guarantees, a local currency facility and blended finance.

17. The issuance of IDA bonds should be conducted in a limited manner with strong oversight, to prevent fluctuations of private capital markets and the need to repay bonds from endangering the IDA's ability to provide concessional loans and grants to low-income countries. The Private Sector Window raises related concerns about the use of IDA funds to benefit private investors and guarantee profits. PPPs that combine public finance and private operation are already a dangerous approach, with a chequered history of creating hidden debt burdens on governments. Intensification of private financing will redouble the need to produce revenue through user fees, damaging access and potential benefits.

18. Particular caution must be exercised with regards to the financialization of infrastructure projects and bundling into investment vehicles. This approach could lead to inadequate assessment of risk and imprudent behaviour and become a threat to global financial stability. Since the global financial crisis, the growth of private finance has been decoupled from job creation and the real economy and has thereby fuelled inequality. Responsible public investment remains the best and proven route to sustainable infrastructure, job growth and shared prosperity. The World Bank should not abdicate its

role and become an instrument for over-protecting private capital. Private co-financing can play a role in development, but the Bank should ensure that projects support its twin goals of ending extreme poverty and promoting shared prosperity, are consistent with environmental and social safeguards and that investors shoulder a fair share of the risk.

19. The private provision of public goods and privatization remain a concern, especially in healthcare and education. Even the *World Development Report 2018* on learning – which featured troubling discussions on teachers, testing and financing – took a measured approach to private education and argued that technology must be used to strengthen, not replace, the teacher-student relationship. The WDR found "no consistent evidence that private schools deliver better learning outcomes than public schools", noted that proper regulation of private education could be more difficult than publicly providing quality education and concluded that "countries need to ensure that private schooling does not undermine learning for all".

20. Nevertheless, IFC-backed Bridge International Academies charges fees in developing countries for private education by untrained teachers reading scripted, subpar curriculum from tablets. This is a disservice to families that use limited resources to pay fees, students who are denied quality education and teachers who are undermined by de-professionalization. As the WDR 2018 stated: "Private providers may try to take advantage of [families] to increase profits or achieve their other goals". The IFIs and governments need to play an active role to ensure responsible private sector behaviour and should not hand over development or public services to profit-seeking actors.

Just transition for workers and social dialogue for a sustainable economy

21. Global Unions welcome the announcement in December that the World Bank and the Canadian government will work with the International Trade Union Confederation on just transitions to low-carbon economies in developing and small island countries. The announced joint work supported by Canada focuses on moving from coal-fired electricity to clean energy. The ITUC and the Just Transition Centre, which brings together trade unions and other organizations, have a wealth of best practices and information to contribute. We are pleased to work together with the World Bank and the Canadian government, and hope that an agreement will be reached quickly to operationalize the announced programme.

22. Workers need a seat at the table in designing national strategies on energy and sustainability. If just transitions do not occur for fossil fuel workers and quality jobs are not created in the shift toward a low-carbon economy, social cohesion will be further damaged and inequality exacerbated. Global Unions encourage the World Bank to support tripartite processes and social dialogue on just transition. This will bolster existing World Bank engagement on economic change and emissions reduction, such as the Nationally-Determined Contributions Partnership.

23. Universal social protection is the bedrock of climate change resilience and a just transition for workers. The IFIs should support the strengthening of social protection systems with an attention to the impacts of climate change. In the immediate term, more is needed from the IMF to protect low and middle-income earners from changes to fuel

subsidies, particularly in countries such as Egypt that are experiencing high inflation as a result of reforms of government programmes.

Cooperation for implementing World Bank's labour safeguard

24. In late 2018 the World Bank is scheduled to join several other multilateral development banks that, over the past several years, have adopted and implemented comprehensive labour standard lending requirements or safeguards. "Environmental and Social Standard 2: Labour and Working Conditions" (ESS 2) is part of the Bank's new *Environmental and Social Framework*, adopted in August 2016. ESS 2 provides for basic occupational health and safety requirements, obligations to provide information to workers and a requirement to respect certain fundamental workers' rights.

25. The World Bank's introduction of a labour safeguard is an important development, but the effectiveness may be impaired by the fact that in some aspects its version is weaker than those of other MDBs. In order to avoid weaknesses or ambiguities in ESS 2 leading to tolerance of unacceptable labour practices or denial of workers' rights in Bank-financed activities, it will be imperative that the Bank cooperates fully with parties knowledgeable about the labour conditions in its projects and programmes, notably the ILO and trade unions. In December, Global Unions submitted to the World Bank detailed recommendations for an upcoming Guidance Note for the implementation of ESS 2.

26. The Bank should move forward in cooperation with unions and the ILO as it develops training programmes, monitoring mechanisms and consultation procedures for implementing ESS 2. The Bank should also examine possibilities of working jointly with other MDBs that have had years of prior experience in implementing labour safeguards. Joint work could take place, for example, in training of staff and project managers on labour standards requirements, and in establishing effective monitoring and information-gathering procedures to identify risks of safeguard violation. Other MDBs that have still not adopted a labour safeguard should be encouraged to do so. Among the long-established regional banks, the Asian Development Bank and the Inter-American Development Bank have yet to join their peers in adopting obligatory requirements that their activities comply with fundamental workers' rights.

Global Unions' recommendations

Measures to support shared prosperity and decent work

27. The IMF and World Bank should

- Ensure that all operations contribute to inequality reduction by assessing how policy advice, lending and conditionality will affect economic and gender inequality. Support shared prosperity and the recovery of lost labour share of national income by promoting liveable minimum wages and collective bargaining. End the promotion of labour market deregulation and wage suppression, including through funding conditionality. Instead, help foster social dialogue, wide coverage of collective bargaining agreements and strengthened labour market institutions.

- Contribute to strengthening of public administrative capacity and public investments in quality services and sustainable infrastructure.

- Help countries design fiscal policies that reduce inequality and realize universal social protection through more progressive tax regimes, measures to tackle tax evasion and carbon taxation.

- Support a just transition for workers and communities affected by shifts toward a low-carbon economy. Promote tripartite social dialogue, social protection and decent work to enable and execute a just transition.

- Support the inclusion in trade and investment agreements of enforceable labour provisions based on ILO standards and the repeal of investor-state dispute settlement mechanisms that undermine governments' right to regulate.

28. The World Bank should

- Ensure that projects and programmes respect fundamental workers' rights and provide safe working conditions and adequate wages. Work jointly with trade unions and the ILO in the implementation of "Environmental and Social Standard 2: Labour and Working Conditions" to ensure that Bank-financed activities are in full conformity with recognized international labour standards, including in identifying projects with high risk of non-compliance and in monitoring compliance.

- Examine possibilities of joint work with other multilateral development banks that have adopted labour safeguards on their implementation, for example in training activities and establishing effective monitoring procedures.

- Avoid a reorientation of the functions of the World Bank through private involvement in development and carefully manage the use of PPPs, private investment and raising funds from capital markets. The Bank should ensure that private involvement is responsible and does not endanger the Bank's twin goals, public services, national development goals or the mission of the International Development Association.

Measures for effective financial regulation and taxation

29. The IMF should

- Refrain from issuing loan conditions and policy recommendations in the area of social protection pending finalization of the Fund's new institutional view. Reconsider loan conditions and policy recommendations that compromise decent work or exacerbate inequality.

- Support the extension and completion, and reject any rollback, of steps taken since 2008 to correct under-regulation of the financial sector, such as shadow banking systems, too-big-to-fail financial groups and under-taxation of the financial industry.

- Support a process leading to an international agreement for the coordinated regulation of crypto-currencies.

- Support the creation of a multilateral framework for negotiating binding international debt restructuring agreements when countries face unsustainable sovereign debt.

- Promote stronger actions to counter the erosion of tax bases and achieve reform of taxation systems in order to move toward broader-based and more progressive taxes, and to shift taxation from employment to environmentally damaging and non-productive activities, including carbon taxes.

- Support stronger measures to ensure that fiscal revenue is not lost through tax havens by requiring automatic exchange of information and action to stop base erosion and profit shifting by multinational enterprises.

- Support the introduction of financial transactions taxes to discourage speculative behaviour and create new sources of finance.

02-04-18